

STATE OF MAINE
PUBLIC UTILITIES COMMISSION

November 17, 2003

OXFORD TELEPHONE COMPANY
Implementation of 2002 Amendments to
Chapter 204

Docket No. 2003-492

ORDER APPROVING
INCREASES TO LOCAL RATES
FOR BSCA EXPANSIONS AND
BSCA CALCULATIONS
(SUBJECT TO TRACKING)

OXFORD WEST TELEPHONE COMPANY
Implementation of 2002 Amendments to
Chapter 204

Docket No. 2003-493

ORDER APPROVING
INCREASES TO LOCAL RATES
FOR BSCA EXPANSIONS AND
BSCA CALCULATIONS
(SUBJECT TO TRACKING)

OXFORD TELEPHONE COMPANY
Reduction in Access Rates Pursuant to 35-
A M.R.S.A. § 7101-B

Docket No. 2003-809

ORDER APPROVING ACCESS
RATE REDUCTION

OXFORD WEST TELEPHONE COMPANY
Reduction in Access Rates Pursuant to 35-
A M.R.S.A. § 7101-B

Docket No. 2003-810

ORDER APPROVING ACCESS
RATE REDUCTION

WELCH, Chairman; DIAMOND and REISHUS Commissioners

I. SUMMARY

In this Order, we approve the proposal filed by Oxford Telephone Company and Oxford West Telephone Company (hereafter “the Oxford Companies” or “the Companies”) to increase their rates for local service in conjunction with implementation of expansions to their basic service calling areas (BSCAs) and to reduce their intrastate access rates to the levels of their interstate access rates that were in effect on January 1, 2003. These changes take effect on December 15, 2003. We also approve, subject to tracking pursuant to Chapter 204, § 5(C), the Company’s calculations for net revenue loss that will occur as a result of the BSCA expansions.

II. BACKGROUND

On October 24, 2003 (revised on November 13, 2003), Oxford and Oxford West Telephone Companies filed proposals (including changes to their rate schedules and terms and conditions) to increase local rates to offset the expected revenue effects from expansions to the Companies’ basic service calling areas and from lowering their intrastate access rates

to interstate levels. The BSCA expansions are required by recent amendments to Chapter 204 of our Rules. The access rate reductions are required by 35-A M.R.S.A. § 7101-B, amended effective May 2, 2003.

The BSCA expansions become effective on December 15, 2003. They are required by the November 2002 amendments to Chapter 204. Each exchange will add all contiguous exchanges not presently part of its BSCA. LECs will experience access revenue losses because calls to the contiguous exchanges that are being added to the BSCAs that previously were long distance toll calls, will become local. Thus, all the access revenue associated with those minutes is lost. Part of the local rate increases proposed by the Companies is designed to offset those losses on a revenue-neutral basis. For the reasons described below it is difficult to calculate precisely the rate changes needed to achieve revenue neutrality.

The access rate reductions also will cause a decrease in access revenues. Part of the local rate increases proposed by the Companies is designed to offset those losses on a revenue-neutral basis. Unlike the revenue loss due to the BSCA changes, however, the access revenue loss is readily calculable in advance.

III. CHANGES DUE TO BSCA; TRACKING

In their November 4, 2003 filings, the Oxford Companies provided calculations of the BSCA revenue losses (which, as explained below, are known and certain amounts) and estimates (less certain) of revenue gains from local rate changes. The BSCA-related revenue changes include access revenue losses that will occur because calls to the areas that are being added to the Companies' BSCAs previously incurred long distance toll charges (and generated access revenues for the Companies), but are now local calls.¹ They also include changes in local revenue due to changes in the mix of subscribership to the Premium and Economy options, as well as changes due to the change in the rate (from 20 cents per call to 5 cents a minute) for economy customers who call outside the flat-rate calling areas of the Economy option but within the BSCA. The Companies also included estimates of small amounts of BSCA-related billing system, facility and administrative costs. As discussed in greater detail below, it is difficult to predict some of these elements.

Chapter 204, § 5(A) states that a LEC that implements new or modified BSCAs may propose rates that will cover its additional costs and net revenue losses that are attributable to those BSCA changes. Section 5(C) requires LECs to "track" revenue effects for a period of at least 12 months. If the LEC's net revenue loss is greater than predicted (i.e., greater than the prediction upon which the rates approved pursuant to Section 5(A) were based), the LEC may request recovery of the shortfall and propose rates that will collect the correct amount of revenue loss. If the LEC's net revenue loss is less than predicted (and included in rates approved pursuant to Section 5(A)), it must return the excess to customers and must propose future rates (or ongoing support) that will collect the correct amount to offset the revenue loss.

For a LEC that provides only access service, but not retail toll, there is no reason for the BSCA tracking account to track lost access and billing and collection (B&C) revenues. Once these amounts are calculated, they do not change for ratemaking purposes. The

¹ The Companies have no retail toll revenue; they only provide access to interexchange carriers.

number of minutes and messages (and, therefore, access and B&C revenue) that the Oxford Companies will lose as a result of the BSCA expansions during the test period is known now.²

The Companies have also provided calculations of effects on local revenues. One of those components is the revenue loss from the elimination of the rate of 20 cents per call for calls by Economy option customers to exchanges within the customer's BSCA but outside the flat-rate calling area of the Economy option. That component will be permanently lost. (It is being replaced by a rate of 5 cents per minute.) As in the case of the access revenue loss (described above), it is relatively easy to calculate, and its amount is known in advance. It is not necessary to track these lost revenues.

It is necessary, however, to track the amount of additional local revenue that will act to offset the known losses described above. The local replacement revenues include revenues available from the increases to local rates for both the Premium and Economy options and from a new rate of 5 cents per minute for calls by Economy option customers to exchanges within the customer's BSCA but outside the flat-rate calling area of the Economy option (replacing the 20 cents per-call rate). These revenues cannot be fully predicted because the realized mix of customers subscribing to the Premium and Economy options may differ from predicted levels. Predictions are difficult to make because, ultimately, only customers can determine which of the calling options has greater value to them, and the calling areas available under each option will have changed. It is also difficult to predict revenues that the Company will receive from the new 5 cents per minute rate. The new rate may be more attractive to some customers and less attractive to others than the former rate of 20 cents per call and might even influence customer choice for the two calling options.

We direct the Companies to track the replacement revenues for 12 months and report the results to the Commission on or before March 15, 2005. Because notice of the BSCA changes will be relatively close to the December 15, 2003 implementation date, and many customers may not respond immediately to the calling options contained in the notice, we believe it makes sense for the 12 months of tracking to begin on February 1, 2004. The results shall be compared to the projections used in the November 4, 2003 filings. The Companies may experience other changes in sales that may need to be taken into account in any possible revisions following the BSCA tracking period. Therefore, the Companies, on or before March 15, 2005, shall file billing units for all their services, including numbers of access lines and access minutes, for the most recently available period prior to the implementation of BSCA expansion and for each month during the tracking period.

Chapter 204, § 5(C) does not expressly require "tracking" of expenses and new investment, or the recovery by the utility or ratepayers of the difference between the

² For those LECs (Verizon, Saco River and Pine Tree) that offer retail toll service, it is far more difficult to calculate in advance the revenue effect of the loss of all toll traffic to the contiguous exchanges that are being added to BSCAs. The LECs that offer only access have only one set of rates, applicable to all traffic. It is easy to apply those rates to the lost traffic. By contrast, LECs that provide retail toll have a wide variety of rates, including some that are designed for short-haul (but not exclusively contiguous exchange) traffic and that have non-traffic-sensitive charges. It is not possible to determine the exact mix of those rates for the contiguous toll traffic that is lost, as compared to the mix of those rates for the toll traffic that remains.

estimates embodied in rates (or USF) and actual costs, notwithstanding the fact the Section 5(A) allows a LEC to propose rates (or USF) in advance of implementation that will cover those costs. The level of costs estimated by the Companies in the November 4 filing is relatively small, but they provided few details in support of their estimates of those costs, and we have not subjected them to close examination. We therefore find that it is reasonable, as a condition of approving the rates pursuant to Section 5(A) of Chapter 204, that the Company keep records of the actual BSCA-related implementation expenses and investment, and that they provide that information to the Commission when such expenses and investment are completed, but no later than March 15, 2005. Tracking should be for a period that covers all expenses related to BSCA and any changes in investment attributable to the BSCA expansions, provided they are made no later than January 31, 2005. Results shall be presented in absolute and annualized forms. We note that the Companies' initial filing claimed costs that they were already incurring and were not incremental, e.g., overhead for existing office personnel and labor costs by existing employees who are already being paid for additions to facilities. The Companies shall include only *incremental* costs (costs that would not have been incurred but for the BSCA expansions) in the cost and investment tracking account. This would include the hiring of outside contractors, overtime for existing employees to the extent the overtime was caused by the BSCA expansions, and investments in plant that are attributable solely to the BSCA expansions.

With the cost and investment tracking information, we may consider whether to order a change in future USF funding to reflect the differences between present estimates and actual costs. We do not decide at this time whether we would order reconciliation for the differences during the tracking period. We note, however, that because the cost changes presently estimated by the Companies are small, if the projections are reasonably accurate, rate changes or reconciliation may be unnecessary. The Companies have proposed a 5-year amortization for expenses. We find that proposal is reasonable. If there is a need to change rates as a result of the tracking, we will determine the appropriate treatment of incremental investment at that time.

IV. CHANGES DUE TO ACCESS RATE REDUCTIONS; INTERACTION BETWEEN BSCA AND ACCESS RATE EFFECTS

Two separate events will affect Oxford's and Oxford West's access revenue and local service rates on December 15, 2003: the reduction in access rates and the elimination of access revenue entirely from those toll routes that will become local as result of adding them to BSCAs. As noted above, the Companies can calculate the revenue effects of the access rate loss in advance, and, in their November 4, 2003 filings, have done so correctly.

The interaction between the calculations for those two effects is somewhat complex. In their filings, the Companies in effect assumed that the access rate reductions that will take effect on December 15, 2003 occurred *before* the elimination of access and B&C revenue entirely for the calls (presently interexchange toll) to the contiguous exchanges that will be added to BSCAs, even though both events will occur simultaneously. The Companies' approach is reasonable, although it would be equally valid to calculate the effect of the BSCA changes first.

We see no substantive difference between the end results of the two approaches. Neither method over-counts or under-counts and both arrive at the same end result. To determine the amount of total lost access revenue, the Companies applied the access rate

reduction to all their access minutes (including the minutes that will be lost entirely because of the BSCA expansions). For the subset of access minutes that will be lost entirely due to the BSCA expansions, the Companies then applied the difference between the new access rates and \$0. They also calculated the associated loss in B&C revenue for those minutes. The alternative method would calculate the revenue effect of eliminating the minutes that will be lost to the BSCA expansions first (using present access rates), and would then determine the revenue effect of the access rate reduction to the remaining (non-BSCA) minutes.

Although there is no difference in the end results of the two approaches, each produces different numbers for the revenue reduction due to the access rate change and that for the loss of access minutes as a result of the BSCA expansions. For the BSCA revenue loss, the method used by the Companies shows a smaller loss than the alternative approach. The Companies already had reduced the access rate prior to eliminating the minutes entirely, leaving only the difference between the *reduced* access rate and \$0 as the BSCA-caused loss. The alternative method would show a greater BSCA access revenue loss: by eliminating the BSCA minutes first, the loss per minute would show as the difference between present access rates and \$0. Conversely, the effect on the revenue loss due to the access rate reduction is greater using the Companies' approach because the minutes that will disappear with the BSCA expansions have not yet been removed; under the alternative approach, they would be removed first, thereby showing a smaller loss.

As noted above, the difference between the two approaches has no effect on the end results, in particular, on the amount of the local rate increases and the BSCA tracking accounts. First, to the extent that one method shows a greater (or lesser) BSCA revenue loss, the difference is offset exactly by a lesser (or greater) amount shown for the access rate reduction. Second, as discussed above, the BSCA tracking account is not used for tracking lost access and B&C revenues. Even though the two approaches will produce two different numbers for this loss, once the amount is calculated, it never changes. (The Companies must, of course, use the same approach at the end of the tracking process.)

V. RATE CHANGES

The table in Attachment A sets forth the current local rates, the rate changes and rates approved by this Order. Although the *increases* in rates vary considerably, CST has attempted to make its rates more uniform.

Accordingly, we

1. APPROVE, pursuant to Chapter 204, § 5(A), the increases to local exchange service rates proposed by the Oxford Telephone Company and Oxford West Telephone Company in Docket Nos. 2003-492 and 2003-493;
2. APPROVE the reductions in intrastate access rates proposed by Oxford Telephone Company and Oxford West Telephone Company in Docket Nos. 2003-809 and 2003-810;
3. APPROVE the changes to the rate schedules and terms and conditions of Oxford Telephone Company and Oxford West Telephone Company filed with the Commission on November 13, 2003, for effect on December 15, 2003;

4. APPROVE the initial calculations by Oxford Telephone Company and Oxford West Telephone Company of expected revenue losses and gains and cost changes as a result of BSCA expansions, subject to the maintenance by the Companies of tracking accounts and the reporting of the tracking results, as described herein;

5. ORDER Oxford Telephone Company and Oxford West Telephone Company to maintain tracking accounts from February 1, 2004 until January 31, 2005 for net revenue changes that will occur as a result of expansions of basic service calling areas (BSCAs) that will become effective on December 15, 2003; for that purpose the Companies shall hold constant in the tracking account the calculations in its filing of November 4, 2003 for access revenue loss (which reduced access rates first and then eliminated all minutes and revenue for exchanges being added to BSCAs) and the loss of revenue from the elimination of the rate of \$.20 per call described herein, and shall track the effects of the local revenue increases approved herein;

6. ORDER Oxford Telephone Company and Oxford West Telephone Company, on or before March 15, 2005, to report to the Commission the results of the tracking account described in paragraph 5 and changes in the number of lines; to provide a proposal for reimbursement of customers for any over-funding consistent with the requirements of Chapter 204, § 5(C) and this Order; and to propose rate adjustments for future rates if the rates approved herein result in over-collection;

7. ORDER Oxford Telephone Company and Oxford West Telephone Company to maintain a tracking account from the commencement of the incurrence of expenses until January 31, 2005 for changes in their revenue requirement (expenses and investment) resulting from the implementation of the BSCA changes that will take place on December 15, 2003, and to report the results of that tracking on or before March 15, 2005; and,

8. ORDER Oxford Telephone Company and Oxford West Telephone Company, on or before March 15, 2005, to file billing units for all their services, including numbers of access lines and access minutes, for the most recently available period prior to the implementation of BSCA expansion and for each month during the tracking period.

Dated at Augusta, Maine, this 17th day of November, 2003.

BY ORDER OF THE COMMISSION

Dennis L. Keschl
Administrative Director

COMMISSIONERS VOTING FOR: Welch
 Diamond
 Reishus

NOTICE OF RIGHTS TO REVIEW OR APPEAL

5 M.R.S.A. § 9061 requires the Public Utilities Commission to give each party to an adjudicatory proceeding written notice of the party's rights to review or appeal of its decision made at the conclusion of the adjudicatory proceeding. The methods of review or appeal of PUC decisions at the conclusion of an adjudicatory proceeding are as follows:

1. Reconsideration of the Commission's Order may be requested under Section 1004 of the Commission's Rules of Practice and Procedure (65-407 C.M.R.110) within 20 days of the date of the Order by filing a petition with the Commission stating the grounds upon which reconsideration is sought.
2. Appeal of a final decision of the Commission may be taken to the Law Court by filing, within **21 days** of the date of the Order, a Notice of Appeal with the Administrative Director of the Commission, pursuant to 35-A M.R.S.A. § 1320(1)-(4) and the Maine Rules of Appellate Procedure.
3. Additional court review of constitutional issues or issues involving the justness or reasonableness of rates may be had by the filing of an appeal with the Law Court, pursuant to 35-A M.R.S.A. § 1320(5).

Note: The attachment of this Notice to a document does not indicate the Commission's view that the particular document may be subject to review or appeal. Similarly, the failure of the Commission to attach a copy of this Notice to a document does not indicate the Commission's view that the document is not subject to review or appeal.